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# ROLE OF BANKS IN FINANCIAL INCLUSION

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## ABSTRACT

Rapid economic growth in India in the recent years has brought in its wake a number of concerns, which relate to expanding this growth across regions, sectors and people. The major objective is to ensure inclusive growth by removing the constraints of poor infrastructure, improving economic efficiency and spreading the benefits of growth over a vast population, which has remained outside the purview of this development process. The financial sector in the country has also experienced revolutionary changes out a segment of population is excluded from the advantages of this revolutionary process. Financial exclusion, which is generally the outcome of poverty, ignorance and environmental factors, is to a great extent related to supply side issues i.e. lack of appropriate financial services for poor. Hence, for the inclusive growth Financial Inclusion is the need of the hour. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include – nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.



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## INTRODUCTION

*'All that is valuable in human society depends upon the opportunity for development accorded to the individual'*

**- Albert Einstein**

Building inclusive financial sectors improves people's lives, in particular those of the poor. A small loan, a savings account or an insurance policy can make a great difference to a low-income family. They enable people to invest in better nutrition, housing, health and education for their children. They ease the strain of coping with difficult times caused by crop failures, illness or death. They help people plan for the future. Financial Inclusion as a concept is not new. Both the Government of India and Reserve Bank of India have been pursuing the goal of financial inclusion over several decades. The rural cooperative credit structure which was built up in the 50s, nationalization of banks in the 60s, launching of lead bank scheme, establishment of Regional Rural Banks in the 70s, establishment of NABARD in 80s have been milestones in the journey of building up of financial architecture in the country for financial inclusion. Despite these efforts the extent of financial exclusion in the country is truly staggering. Going by the available data on the number of savings accounts and assuming even that one person has only one account - on an all India basis, only 59 percent of the adult population in the country has bank accounts. In other words, 41 percent of the population is unbanked. The Rangarajan Committee on Financial Inclusion noted that despite the vast network of bank branches, only 27 percent of total farm households are indebted to formal sources. Financial exclusion varied across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

### 1.1 Genesis of the Concept

The new concept of financial inclusion was first mooted by RBI in its Annual Policy statement of 2005-06, when it advised all banks to open no frills accounts, either with nil or very low minimum balances and make the facility available to vast sections of the population. Subsequently SLBCs in each State were advised to identify at least one district to start 100 percent financial inclusion on a pilot basis. As a result, out of 623 districts in the country, 431 had been identified for financial inclusion. Simplifying KYC norms, introduction of general credit cards, business correspondents and business facilitator models, financial education; etc., were the series of measures undertaken by RBI for financial inclusion. As recommended by the Rangarajan Committee, the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) were set up with NABARD. The funds are meant for meeting the costs of developmental and promotional interventions and costs of technology adoption, respectively. The funds will have an initial corpus of Rs 500 crore with initial funding of Rs 250crore each to be contributed equally by the GOI, RBI and NABARD.

### 1.2 Meaning of Financial Inclusion

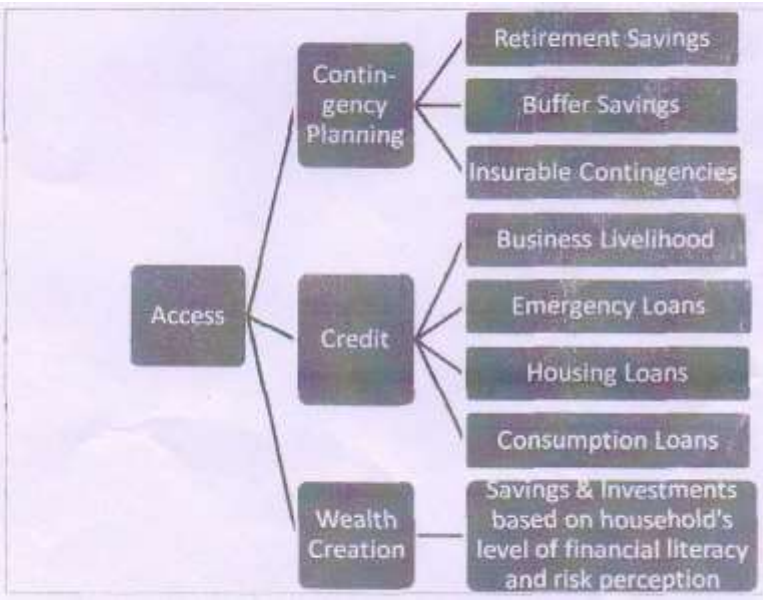
Financial inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society.

The term financial inclusion denotes "The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker and low income groups at an affordable cost in a fair and transparent manner by Institutional players." Financial Inclusion should include access to financial products and services like –

- No frill Bank accounts – check in account
- Micro Credit
- Savings products
- Remittances & Payment services
- Insurance – Healthcare
- Mortgage
- Investment plan for child's education
- Entrepreneurial credit
- Pension for old age
- Business correspondence & self-help group
- Branchless banking
- Micro finance & micro credit facility
- Investment plan for child's education

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such *as* insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan). Household access to financial services is depicted in Figure I.

**Figure 1:** *Household Access to Financial Services*




**Source:** *A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman • Dr. RaghuramRajan)*

### 1.3 Literature Review

The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key pillars of India's financial system. Public have immense faith in banks (Vineet Patawari, 2011). The banking sector has taken a lead role in promoting financial inclusion. Legislative measures have been initiated in some countries. For example, in the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhood.

In France, the law on exclusion (1998) emphasizes an individual's right to have a bank account. The German Bankers' Association introduced a voluntary code in 1996 providing for an 'everyman' current banking account that facilitates basic banking transactions. In South Africa, a low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, a 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion. The "Principles for Innovative Financial Inclusion" serve as a guide for policy and regulatory approaches with the objectives of fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved and delivery of the full range of affordable and quality financial services (Chakrabarty. K. C, 2011).

### 1.4 Rationale of the Study

Financial Inclusion has become a buzzword now but in India it has been practiced for quite some time now. RBI has made efforts to make commercial banks open branches in rural areas. Priority sector lending was instituted to provide loans to small and medium enterprises and agricultural sector. Further special banks were set up for rural areas like Rural Cooperative Banks, Regional Rural Banks. The government also set up national level institutions like NABARD, SIDBI to empower credit to rural areas and small and medium enterprises. In the present scenario, the urgent need and significance of an inclusive financial system is widely recognized in the policy circles not only in India but has become a policy priority around the world. Several countries across the globe now look at financial inclusion as the means of a more comprehensive and inclusive growth. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key pillars of India's financial system. Thus, this study invades the role of NABARD in the process of financial inclusion

### 1.5 Objectives of the Study

1) To study the present status of Financial Inclusion in India
2) To enumerate various initiatives taken by NABARD for Financial Inclusion
3) To analyse the Financial inclusion through NABARD
4) To identify various challenges for effective Financial Inclusion

## METHODS

The study will be carried out with the secondary sources from NABARD, RBI, Government of India and other published resources. The analysis will be made with the collected data by administering statistical tools like percentage analysis, Growth Rate analysis and correlation analysis to enumerate the level of financial inclusion by NABARD.

## RESULTS

### 3.1 Challenges and Opportunities

The question we should ask ourselves is this: despite the rural policy-push, why are so many bankable people unbanked? There are barriers to access financial services emanating from both demand side and supply side factors.

From the demand side, the big barriers are the lack of awareness about financial services and products, limited literacy, especially financial literacy of the populace, and social exclusion. Many of the generic financial products are unsuitable for the poor and there is not much of an effort to design products suitable to their needs. The unfriendly and unempathetic attitude of the banks to the customers also plays an important role in undermining the demand for financial services. On top of that, exorbitant and oftentimes non-transparent fees, combined with burdensome terms and conditions attached to the financial products, also dampens the demand.

From the supply side, the main barrier is the transaction costs that the bankers perceive. Because of current low volumes, banks find that financial services is not cost effective. Furthermore, lack of communication, lack of infrastructure, language barriers of low literacy levels all raise the cost of providing services and inhibit bankers from taking initiative from the supply side.

### 3.2 Productivity and Profitability

Financial inclusion of micro-entrepreneurs the productivity and profitability of their activities by funding their capital requirements and increasing their capacity to supply the consumption needs of industrial workers. In addition, greater financial inclusion of the industrial workers themselves can also contribute to export competitiveness. By accessing deposit services, industrial workers can be assisted to accumulate savings while efficient funds-transfer services can reduce the transaction costs of remittances to families. By increasing the net rewards of participation in the industrial workforce, such services tend again to reduce wage pressures in the export sector and thereby act to maintain its international competitiveness.

### 3.3 Drawbacks

When listing benefits of this approach we also have to understand the negatives or shortcomings of this plan. The first and foremost being the very activity of the account, most of these NF-A's are used for benefits gained from government media or similar. So apart from this activity, the account remains dormant or without enough transactions. Technically each bank has to keep 250 for each such account maintenance. This includes 13.14 per transaction and 50.45 per account creation. This makes it difficult for the banking authorities to encourage such plans. For the reasons, most of the banking services are unsatisfactory and this is drawing people away. To avoid this issue, there has been many NGO's and SHG or Self Help Groups who open up NF-A's and use it for money lending among themselves, keeping the activity running.

## CONCLUSION

The reason why financial inclusion should be promoted is because in India, 80% of its population depend on agriculture and the banks are to invest at least 18% of their credit on the development of rural area. So together with the collaboration of banking community the poverty that has hit the agricultural area should be eradicated. And this will also encourage banks to develop more ideas towards the development of the country.

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